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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
STANLEY "SKIP" PRUSS, DIRECTOR

KEN ROSS
COMMISSIONER

BILL ANALYSIS

BILL NUMBER: HB 5627, as introduced

TOPIC: Requires prior approval and data collection for no-fault insurance

SPONSOR: Rep. Sarah Roberts

CO-SPONSORS: Reps. Lesia Liss, Harold Haugh, Dian Slavens, Kate Segal, Jon Switalski, Douglas Geiss, Bob Constan, Rashida Tlaib, LaMar Lemmons, Mike Huckleberry, Robert Jones, Fred Durhal, George Cushingberry, Jimmy Womack, Coleman Young, David Nathan, Lisa Brown, Woodrow Stanley, Lee Gonzales, Gabe Leland, Ellen Cogen Lipton

COMMITTEE: House Committee on Insurance

Analysis Done: December 2, 2009

POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

PROBLEM/BACKGROUND

The Michigan Essential Insurance Act (EIA) was enacted in 1979 to ensure that consumers have access to automobile and homeowners insurance and that rates are competitive and fair. The EIA established the factors that insurers may use to develop its rates and to ensure that rates are fully substantiated by objective data.

Rate regulation is used to ensure that rates are adequate, not excessive or unfairly discriminatory. Michigan is a file and use state, meaning that insurers can use rates after filing them with OFIR. The file and use system of rate regulation was supposed to stimulate competition in the insurance market by allowing companies to quickly respond to rate changes by competitors.

Under Michigan law, as long as rates are developed using the specified factors in the law and are applied uniformly to all policyholders, auto insurance companies are free to charge whatever amount is necessary to cover their losses and expenses and earn a reasonable profit. Because insurance companies don't use the same characteristics to group individuals for rating purposes

or put the same amount of importance on each factor, the rates for insurance in Michigan can vary widely.

As auto insurance rates have increased in metropolitan areas, so has the call for additional control over these rising costs, including giving the Commissioner more authority over auto insurance rates in the State of Michigan.

DESCRIPTION OF BILL

The proposed legislation would require insurance companies to file auto insurance rates and obtain prior approval of the Commissioner before auto rates could be put into use by a company. A company would also be required to annually file its automobile insurance base rates and would not be allowed to revise its rates for 12 months after a filing, unless the rates are decreased or because of a specific Commissioner ruling or decision to the contrary. Each insurer would also be required to annually submit a complete breakdown of its costs that would be utilized by the Commissioner in determining whether the rates are justified. The proposed legislation is tie-barred with House Bill 5628, House Bill 5629 and House Bill 5630.

SUMMARY OF ARGUMENTS

Pro

The proposed legislation would change the current file and use system to a prior approval system. If adequately staffed, a prior approval system would enable the Commissioner to exert more control over the auto insurance rating system in Michigan and the rates that auto insurers charge their policyholders. This additional authority may ultimately result in lower auto insurance premiums for policyholders in Michigan.

The proposed legislation would also require insurers to submit additional detailed rating, claim and litigation data. The additional rating data would allow the Commissioner to determine whether the rates are actuarially justified, to more fully study the auto insurance marketplace in Michigan, and to more closely monitor insurance company claim practices.

Although auto insurance companies are currently required to file justification for each rate filing with OFIR, the Code does not require uniform data submission. The proposed legislation would establish some uniformity in the type and format of insurance data that is submitted to OFIR for review, making the rate review process more efficient for OFIR staff and providing greater transparency for consumers.

Con

Group auto and home insurance policies have become more prevalent in Michigan. However, the proposed legislation only addresses group auto and does not address group home.

FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation:

Budgetary: OFIR would incur expense to hire, train and maintain adequate staff to perform in-depth reviews of all auto insurance company rate filings. Additional expense would also result from gathering and analyzing additional company data required by the proposed legislation and for ensuring that insurance companies are made aware of the substantial changes to the Insurance Code.

Revenue: Because OFIR is a restricted revenue agency, these additional costs would have to be passed on to insurance companies in the state.

Comments:

(b) To the Department of Energy, Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

None known.

ANY OTHER PERTINENT INFORMATION

None know.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.

A handwritten signature in black ink, appearing to be 'K. Ross', written over a horizontal line.

Ken Ross
Commissioner

12.7.09

Date